AVIATION INVESTMENT
IN MICHIGAN (AIM)

As part of the critical infrastructure system that connects people and goods globally, airports are a valuable asset. They play a role in the everyday life of Michigan citizens. Whether large or small, an airport's impact on Michigan's economy and quality of life can be compared to that of an interstate highway interchange, a railroad station or harbor. Aviation investment in Michigan ensures future generations will enjoy the benefits of our commitment to leave a strong and viable aviation system, better than we found it.

The airports in Michigan are part of a system. ***The key is to effectively manage this system of assets. The challenge is balancing the need to preserve the system with finding an equitable way to assess the users.*** Asset management is a vital component of any strategy to identify projects based on criteria established through a process of prioritization. This is accomplished with the Michigan Airport System Plan (MASP) and the Airport Capital Improvement Plan (AICP), which is included in the MDOT 5-year Transportation Plan.

PA 327 of 1945 established the Michigan Aeronautics Code and created the Michigan Aeronautics Commission with general supervisory authority over aeronautics in the state. The Office of Aeronautics within the Department of Transportation carries out the day to day duties of the Commission per statute and rules. One of the primary roles is implementing the provisions of the Federal Aviation Administration (FAA) Modernization and Reform Act of 2012 in regard to the Airport Improvement Program (AIP) which provides federal funding for airport planning and development through 2015.

Aeronautics activities are guided by the Michigan Aeronautics Commission within the departmental appropriation for the State Aeronautics Fund. The Commission has a long standing role in working to promote a safe and efficient aviation system through investment in airport infrastructure. In order to fulfill their role, the Commission supports a strategy based on sound principles. This transparency is essential to allow decision makers the opportunity to examine, learn, and understand the vital role of aviation in Michigan and the need to support it. The Michigan Aeronautics Commission has identified the following priorities:

- Maintain System of Airports
    - Emphasize MASP Standards for Business and Population Centers
    - Focus on Preserving Existing System
    - Reduce Deficiencies
        - Maximize Federal Funds
        - Leverage Local and Private Investment
        - Provide Share of Match
- Promote Economic Development
    - Conduct Statewide Study
    - Update Community Benefit Tool
- "Implement" Strategic Objectives
    - Good Government in Action
    - Customer Satisfaction
    - Employee Development
- Contribute to Statewide Efficiency
- Eliminate Unnecessary or Burdensome Processes and Regulations

- Address Issue of State Owned Airports
- Evaluate Statewide Air Service
- Have a Positive Influence on National Issues

In addition, an understanding of the overall aviation strategy should examine the following key elements:

- Development Needs – to identify what should be accomplished.
- Efficiencies – to ensure the agency is being responsible with its limited resources.
- Plan – to identify resources necessary to meet the needs.

There is no greater return on investment than the impact of a state dollar invested in the AIP program. AIP investments projected in 2013 for aviation infrastructure improvements is **$120 Million** shared as follows:

- Federal: $85.0
- State: $12.0 (includes $10 million one-time funding from HB4025)
- Local: $13.0

The 2013 program includes projects at over 100 local airports to maintain and improve airfield pavements and lighting, navigation and weather systems, purchase snow removal and firefighting equipment, develop facilities for airport tenants and to operate and maintain the airport. **These investments directly benefit many local contractors and suppliers through wages and purchases. It is estimated that 43 jobs are impacted for every $1 Million invested in aviation construction.**

Additional investments have also proven equally effective in supporting jobs through air service, education, and training programs. These activities support the culture of safety and preservation that has characterized Michigan's leadership role in aviation and long standing commitment to its residents who have come to expect convenient access to the world's air transportation system.

Efficiencies and Innovations

To address the steady decline in revenues to the State Aeronautics Fund, the Office of Aeronautics has continued to find cost savings through efficiencies, however, it should be noted that there is a point where cuts negatively impact effectiveness and limits the ability to deliver quality services to customers. The Office of Aeronautics was once a bureau with 80 employees and now has been reduced to 40 employees. Innovations now allow this size staff to administer its duties effectively with continued emphasis on finding ways to reduce processing times, improve response times, leverage resources, and use technology to advance those efforts. Other efficiency measures include:

- Staff Realignment
- Reassigned/Renegotiated costs
- Eliminated, Reduced, and Suspended Programs
- Leveraged Federal Funds
- Enhanced Fees for Licenses and Permits

Resources

While a number of methods are employed in pursuit of finding an equitable way to assess the users of the aviation system, there continues to be a shortfall between identified need and existing revenues to support these activities. Sources of revenue that support aviation include federal and state excise taxes. Federal taxes are assessed on passengers, freight/mail, and aviation fuel and contribute to the Federal Aviation Trust Fund.

The Federal fuel tax is divided between General Aviation (GA) and Commercial as follows:

- Federal GA Jet Fuel tax $0.218/gal
- Federal GA Avgas tax $0.193/gal
- Federal Commercial Jet Fuel tax $0.043/gal

State taxes in Michigan have included the following:

Fuel Excise Tax - Revenues that support airport infrastructure and safety are generated primarily from the aviation fuel (excise) tax on jet fuel. Avgas or 100LL, as it is known, accounts for less than 1percent of the total collected. **Implemented in 1931 at 3 cents per gallon, the excise tax has remained unchanged for over 80 years, except for a provision in 1945 that "refunds" 1.5 cents/gallon to interstate airlines.** This was done during times of significant growth and prosperity in aviation. In 1999, this generated over $8 million on 400M/Gallons while in 2012 the amount was just over $5 million on 300M/Gallons. Of note, is fuel sold in various "foreign trade zones" for international flights is exempt from the excise tax. This accounts for a loss to the state, but greatly benefits the carriers.

More efficient aircraft and elimination of smaller (50 seat) aircraft with less frequency have had the greatest impact on gallons consumed and, therefore, taxes collected. An adjustment to the 3 cents and/or the refund to reflect inflationary pressures would have an impact, but would need to be on the order of a 2 to 3 cent increase to meet current needs. In addition, converting to a percentage of either the wholesale or sales price instead of a cents-per-gallon model would allow for adjustment with fluctuating fuel prices. 2 percent would raise a sufficient amount.

Aircraft Registration Fees – Another source of revenue is the aircraft registration fee of 1 cent per pound generates approximately $265,000 per year on 6,500 aircraft. Commercial carriers are exempt. The average fee per aircraft is around $40. At one time, there were over 10,000 aircraft registered with the state. In addition, the fee to transfer ownership of an aircraft is a flat $5. A proposed increase to 3 cents per pound would raise approximately $530,000.

Licensing and Permits – Currently the 235 public use airports are inspected and licensed annually with fees between $25 for a basic utility field to $100 for an air carrier airport. In addition the airport manager is also licensed for a $5 fee. Modification to these fees is being considered, however, the impact would be limited.

Parking Tax – A portion of the Detroit Metro Parking Tax provides $6 Million to pay debt service on Airport Safety and Protection Bonds sold in the mid 2000's until 2032.

Sales Tax – In 2012, a portion of the sales taxes collected on aviation products was redirected to the State Aeronautics Fund in accordance with the passage of H.B.4025. This provided sufficient

funds to address the critical needs of the aviation system. Two key provisions of this bill were the amount was capped at $10 million and included a one-year sunset of the funding. This source provided an adequate revenue source for aviation programs.

Concession/Rental Car Tax – A vast majority of rental car transactions take place at airports and like other concessions at airports, rental cars are taxed in various ways through facility charges and primarily the sales tax. This has not been a method of revenue generation for the state to date, but local communities and airports use this frequently. The sales taxes generated on airports from concessions are significant.

Summary

Investments projected in the MDOT 5-Year Transportation Plan – Airport Capital Improvement Plan is **$850 Million**. Anticipated revenue from all sources is $650 Million **= $200 Million Shortfall over the 5 years.** In the context of the agency budget, this can be affected by additional funding for the State Aeronautics Fund as shown below:

AERONAUTICS

Revenue		***Expenses***	
Fuel Tax 3¢/gallon w/1.5¢ refund	$ 5.5	Operating (incl. IDGs, Air Service)	$ 8.0
Parking Tax	$ 6.0	ASAP Debt Service (Increases to $5M in 2015)	$ 4.0
Aircraft Registration (incl. new revenue)	$ .8	Capital Improvement Funds (Based on 5-Year ACIP)	**$ 16.0**
Permits & Licenses	$ .2		
Flight Operations	$ .5		
Total Revenue	***$13 Million***	*Total Expenses*	***$28 Million***

The difference represents the annual shortfall needed to meet state objectives is $15 million.

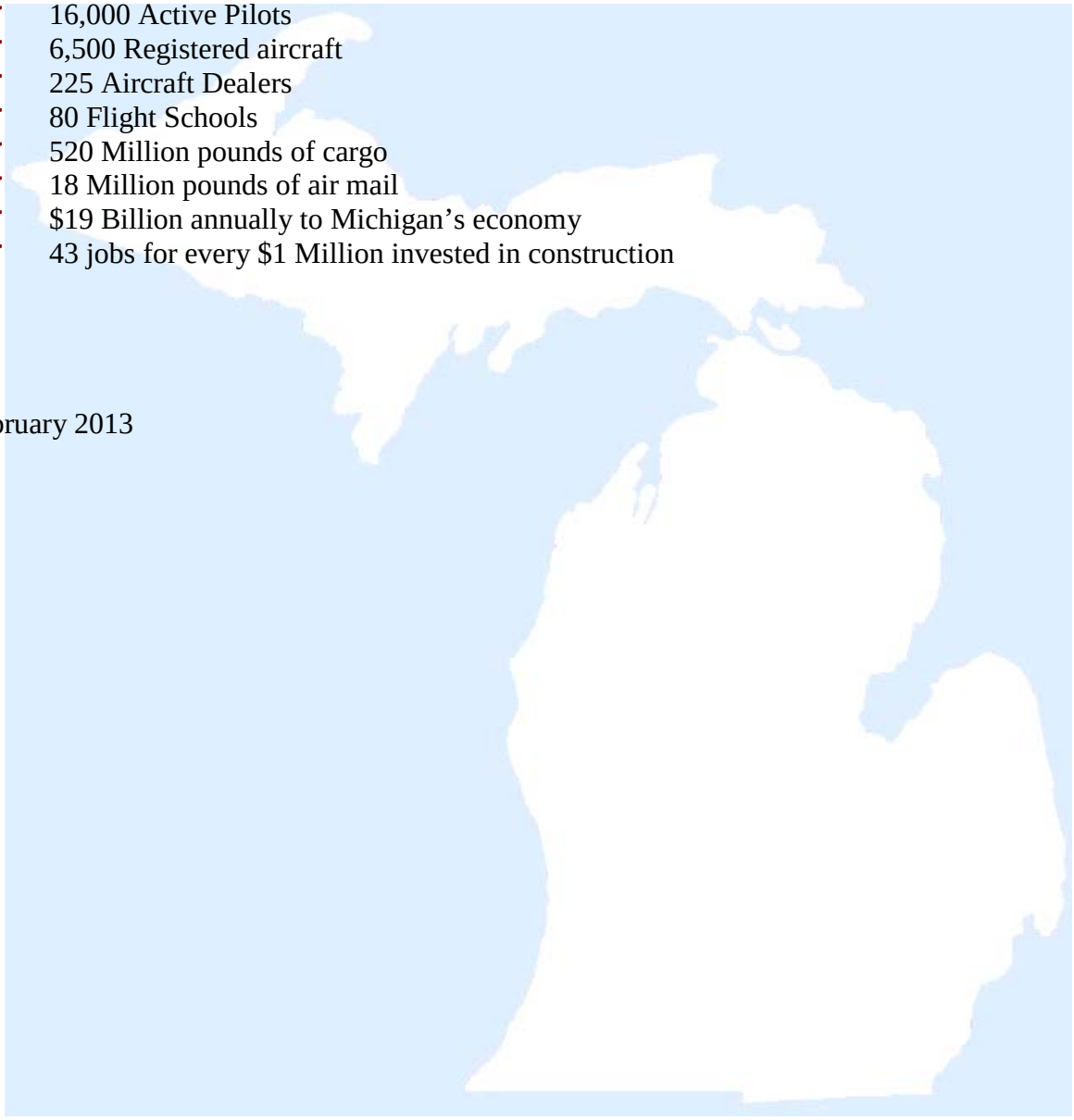
In 2015, Capital Improvement Funds will be limited to the remaining parking tax of $1 Million.

Alternatives to address this need are limited but include modification of an existing source like the sales tax, fuel excise tax, registration and/or licensing fees, or finding new sources of revenue.

Continued efficiencies within both the airline and general aviation industries will result in a constantly dwindling revenue source for the State Aeronautics Fund and innovative solutions will result in Michigan remaining an aviation leader. From the first paved runway in the world to the first mass-produced all metal airliner, Michigan has led the way in pioneering aviation achievements. Securing adequate investment in aviation will promote economic development and allow the State of Michigan to meet the safety and security needs of the future.

Michigan Aviation Facts

- Michigan licenses on average 236 public use airports annually:
  - 107 are private owned
  - 129 are publicly owned
  - 18 support scheduled air carrier service
- 35 Million Passengers in 2012
- 16,000 Active Pilots
- 6,500 Registered aircraft
- 225 Aircraft Dealers
- 80 Flight Schools
- 520 Million pounds of cargo
- 18 Million pounds of air mail
- $19 Billion annually to Michigan's economy
- 43 jobs for every $1 Million invested in construction



February 2013